State of Indiana

S.T.A.R.T.® SMART

Winter 2007

Save *More* Today and Retire Tomorrow

By Auditor of State Connie Nass

At the end of each year, we often look back to recount the things we have done and haven't done in the past 12 months. Sometimes, looking back can help you better look to the future. Studies show that too many Americans are not saving enough for retirement. Could you have saved more in 2006? Thankfully, the new year brings new opportunities and new contribution limits to allow you to save and invest more for retirement.

As illustrated in the charts at right, saving more may not reduce your take-home pay as much as you think. Because contributions to your Hoosier S.T.A.R.T.® account reduce the amount of income on which you pay taxes, you pay less in taxes and save more money at the same time. For example, based on a $25,000 annual salary, changing your contribution from $15 to $30 might only decrease your paycheck by $11.25. Would you spend $11.25 to get $15? How about $26.25 to get $35? Or $63.75 to get $85? Whenever you increase your contribution, the increase will be greater than the reduction in your take-home pay.

A small step like contributing another $15 per pay period can make a big difference over the course of a career. But remember, you do not have to contribute a flat dollar amount like $30, $50 or $100. If you like, you can contribute a percentage of your income. Are you a State employee who received a 4% "Pay for Performance" raise? If so, are you going to spend it or save it?

Why not do both? You could change your $15 contribution to a 2% contribution this year, using half your raise to save today for tomorrow's retirement. If you did that every year for five years, you'd be using 10% of your income to prepare in advance for retirement.

You can change your contribution amount by calling the Hoosier S.T.A.R.T. service center at (877) 728-6738. Press "2" to speak with a Hoosier S.T.A.R.T. representative.1 You may also print a salary deferral agreement from the Web site, www.hoosierstart.com, under the Forms tab. Complete the form and mail it to the address listed at the bottom of the form.

I hope you will take advantage of the higher 2007 contribution limits to help build your retirement nest egg. Now that I'm entering my retirement years, I am all the more thankful for the opportunity to encourage you as you prepare for yours. ■

"…saving more may not reduce your take-home pay as much as you think."

If you contribute $15 more, your paycheck may only decrease by $11.25.

Gross Annual Pay $25,000	$15 Contribution	$30 Contribution
Gross Pay	$ 961.54	$ 961.54
Before-Tax Income	$ 946.54	$ 931.54
Tax	$ 236.64	$ 232.89
Take-home Pay	**$ 709.90**	**$ 698.65**

If you contribute $35 more, your paycheck may only decrease by $26.25.

Gross Annual Pay $35,000	$15 Contribution	$50 Contribution
Gross Pay	$ 1,346.15	$ 1,346.15
Before-Tax Income	$ 1,331.15	$ 1,296.15
Tax	$ 332.79	$ 324.04
Take-Home Pay	**$ 998.36**	**$ 972.11**

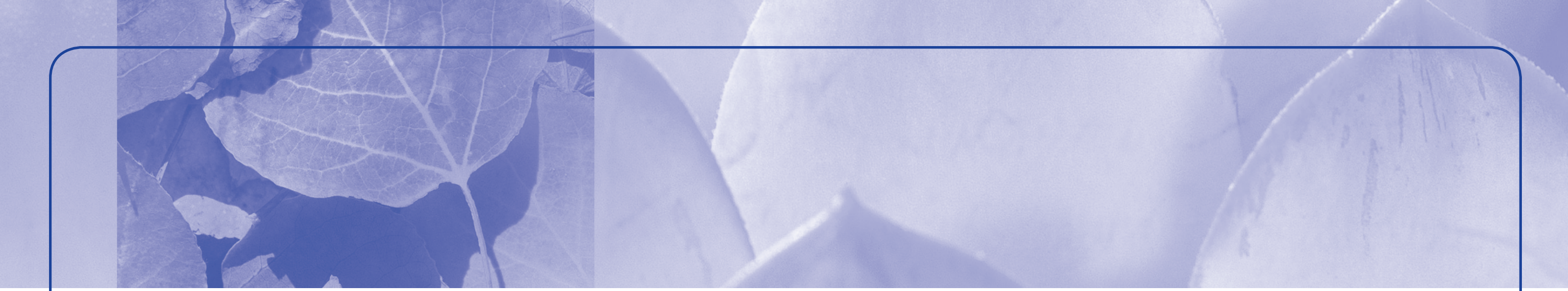
If you contribute $85 more, your paycheck may only decrease by $63.75.

Gross Annual Pay $50,000	$15 Contribution	$100 Contribution
Gross Pay	$ 1,923.08	$ 1,923.08
Before-Tax Income	$ 1,908.08	$ 1,823.08
Tax	$ 477.02	$ 455.77
Take-home Pay	**$ 1,431.06**	**$ 1,367.31**

These hypothetical illustrations assume a 25% tax bracket and 26 pay periods. They do not take into account Social Security and any other possible payroll deductions.

1 Access to the service center and Web site may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.

Auditor's Corner



New Contribution Limits

Take advantage of the higher 2007 annual contribution limits

In 2007, the maximum amount you may contribute from your salary is 100% of your includible compensation as defined by the Internal Revenue Code or $15,500, whichever is less.

The additional Age 50+ Catch-Up contributions remain at $5,000 in 2007, which means you can contribute a maximum of $20,500 to your Hoosier S.T.A.R.T. Plan if you are 50 or older during the 2007 calendar year.

The Standard Catch-Up contribution amount has increased by $500 in 2007 to $15,500, which means you can contribute a maximum of $31,000 to your Hoosier S.T.A.R.T. Plan if you are within three years of normal retirement age.

If you are eligible for both catch-up options, you may contribute to only one or the other. You may not contribute to both catch-up options in the same year. ■

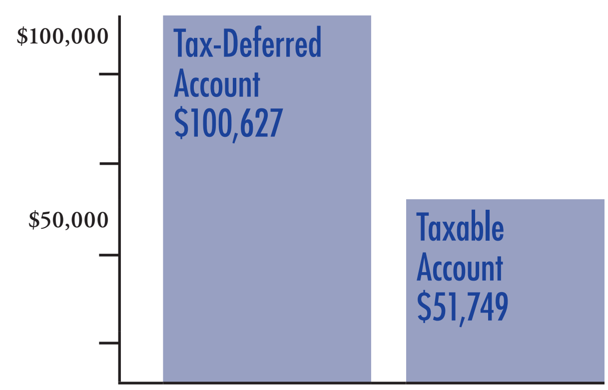
Get with the Program

Tax deferral can have a big impact on your savings

Retirement accounts aren't really magic, but they can seem that way. That's because anything you earn in your typical retirement account is allowed to grow tax-deferred until you reach retirement age and start withdrawing the funds. Say your tax bracket is 30% (federal and state combined). If you invest $10,000 in a portfolio of stock and bond funds and earn a compound average annual return of 8% for 30 years, you'll end up with $100,627 in a retirement account. If you invested that $10,000 in a taxable account, you'd have $51,749. That's a difference of $48,878. Of course, you will pay taxes on the income withdrawn from your retirement account. Assuming the same 30% tax rate, you'd still come out ahead in the end.

If you have a tax-deferred retirement account, the benefits are even more sweet. In these employer-sponsored plans, you get to contribute before-tax dollars and your employer will often match all or part of your contributions. Those two benefits alone could add more to your savings than any rate of return you could possibly hope to get elsewhere. ■

Hypothetical growth of $10,000 invested in a tax-deferred account as opposed to a taxable one over 30 years.



This hypothetical illustration does not represent the performance of any investment options. It assumes an 8% rate of return, a 30% combined federal and state income tax bracket, and reinvestment of earnings, with no withdrawals. The illustration does not reflect any charges, expenses or fees that may be associated with your Plan. The tax-deferred accumulation shown above would be reduced if these fees had been deducted.

2007 Market Closure Dates

With the new year upon us, here are the dates on which the market will be closed for trading in 2007:

January 1 – New Year's Day

January 15 – Martin Luther King Jr.'s Birthday

February 19 – Presidents Day

April 6 – Good Friday

May 28 – Memorial Day

July 4 – Independence Day

September 3 – Labor Day

November 22 – Thanksgiving Day

December 25 – Christmas Day

Quick Tip

Savings opportunities grow with increased contributions

Now you can download your retirement Plan account activity to personal finance programs like Quicken® and Microsoft® Money. Depending on the version and year of your program, you may be able to do the following:

- View investment gain(s)/loss(es), both in absolute value and as percent changed
- Chart investment performance against several market indices
- Analyze your current asset allocation against an established goal

This download option is located at the bottom of the *Transaction History* page in the *View Account* section of the Web site. Try it today! ■